

# MEMORANDUM

progress  
through  
partnership

# MCDA

May 20, 2003

## REPORT TO THE COMMISSIONERS

**Prepared by:** John Harrington, Senior Project Coordinator, Phone 612-673-5018

**Approved by:** Lee Sheehy, Executive Director

Chuck Lutz, Deputy Executive Director \_\_\_\_\_

**SUBJECT:** Project Analysis Authorization and Developer Selection for Hiawatha and Lake Redevelopment Area sites LS3 and LS4

**Previous Directives:** On April 4, 2000, the City Council approved City and MCDA actions to promote transit-oriented development opportunities in the Hiawatha LRT Corridor. On May 19, 2000, the City Council and the MCDA Board of Commissioners approved the Hiawatha and Lake Redevelopment Project Area. On May 18, 2001, the City Council adopted the Hiawatha/Lake (LRT) Station Area Master Plan. On December 28, 2001, the City Council adopted Development Objectives for the Hi-Lake Shopping Center property within the Redevelopment Area. On July 26, 2002, the MCDA Board approved Modification 1 to the Hiawatha and Lake Redevelopment Plan, expanding the area and placing most of the property in acquisition status.

**Ward:** 9

**Neighborhood Group Notification:** On April 21, 2003, the Land Use and Transportation Committee of the Corcoran Neighborhood Organization (CNO) recommended, on behalf of CNO, that the Agency "accept the proposal and grant [the developer] exclusive development rights for the area covered by Phase I of the proposal subject to certain conditions. (resolution attached)

**Consistency with *Building a City That Works*:** consistent with Goal 3: Support strong and diverse neighborhoods where people choose to live. Objective A: Support neighborhood retail services, commercial corridors and employment hubs.; Objective B: Eliminate barriers and blighting influences that prevent or inhibit healthy neighborhood environments and economies.; and Objective C: Create an environment that encourages private investment in neighborhoods.; and Goal 5: Participate in partnerships to achieve common community development objectives. Objective B: Strengthen our participation in existing partnerships and act as a catalyst to form new partnerships.; and Objective C: Work with neighborhoods and the Neighborhood Revitalization Program (NRP) to create partnerships characterized by mutual respect and common goals.

**Comprehensive Plan Compliance:** Complies with the (Corcoran Neighborhood Organization's) Midtown Revival Plan, adopted by the City Council on October 11th, 2002

**Zoning Code Compliance:** Will comply

**Impact on MCDA Budget:**

Sign-off by Manager, Project Planning and Finance \_\_\_\_\_

**Living Wages / Business Subsidy:** Will comply

**Job Linkage:** Will comply

**Affirmative Action Compliance:** Will comply

**Recommendation:** The Executive Director recommends that the Board of Commissioners select Cedar Lake Development Partners' proposal and authorize staff to continue analysis of Phase I of the redevelopment proposal and authorize the Executive Director or other appropriate staff to prepare and execute a Preliminary Agreement to Negotiate.

### Background

In September, 2002, a Hiawatha and Lake Project Review Committee (HLPRC) was convened to work with MCDA and others on the implementation of the approved and adopted redevelopment plans for the area. Representatives from the Corcoran, East Phillips, Longfellow, Powderhorn Park and Seward neighborhood organizations were invited to participate in the HLPRC, along with representatives from Hiawatha-Lake Business Association, Lake Street Council, Lake Street Partners and Bloomington-Cedar-Lake Commercial Association.

Early in 2003, the Corcoran Neighborhood Organization was contacted by developers expressing interest in redeveloping portions of Lake Street in accordance with the Midtown Revival Plan. Following up on the desire of one of the development teams to secure exclusive development rights to part of the redevelopment area, Corcoran Neighborhood Organization, through the HLPRC, asked MCDA to issue a Request for Proposals (RFP) for those two (partial) blocks in the redevelopment area between Cedar Ave. and Longfellow Ave. and between Longfellow and 19<sup>th</sup> Ave. S. The RFP was issued on March 3, 2003 to approximately 45 potential developers. Cedar Lake Development Partners, LLC, submitted the one proposal that was received by the deadline of March 28, 2003.

In addition to the neighborhood organization's review of the proposal, the proposal was considered by the Hiawatha-Lake Project Review Committee (PRC) at their meeting of April 22, 2003. The PRC essentially concurred with the substance of the evaluation of the Corcoran Neighborhood Organization's Land Use and Transportation Committee,

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that the project, as proposed, needed revisions, refinements, clarification and augmentation, but that it should be recommended to proceed to the next step in the process. Several of the PRC members expressed concern regarding the limitations on the review process required to comply with provisions of the Minnesota Data Practices Act.

Project Description

Site: The northern portions of two blocks on the south side of Lake Street East, in Corcoran Neighborhood, between Cedar Avenue and 19<sup>th</sup> Avenue S, identified as sites LS4 (Cedar to Longfellow) and LS3 (Longfellow to 19<sup>th</sup>).

Development Entity: Cedar Lake Development Partners, LLC (a joint venture between Welsh Companies and Lupe Development Partners)

Proposed Development: Two four-story buildings totaling approximately 158,000 square feet of mixed-use (residential over retail/commercial) development. The west building (Building A) at the SE corner of Cedar and Lake is proposed to contain almost 67,000 square feet of residential over approximately 25,000 square feet of retail. The east building (Building B) between Longfellow and 19<sup>th</sup> Avenue is proposed to contain almost 50,000 square feet of residential over 16,000 square feet of retail. All of the residential units are proposed as affordable or "workforce" housing. 20% of the units (mix not specified) would be set aside for incomes at 50% of the metropolitan median income (MMI) and 76 units would be targeted to households earning no greater than 60% MMI.

Block	Cedar to Longfellow	Longfellow to 19th
Building	A	B
Basement	Parking (58 spaces)	Parking (38 spaces)
Street Level	Commercial (25,000 sq. ft.)	Commercial (16,000 sq. ft.)
Floors 2 through 4	Residential (54 units 67,000 sq. ft.)	Residential (42 units 50,000 sq. ft.)
Surface Parking (Commercial)	28 spaces	48 spaces

Public Assistance Requested:

Housing Revenue Bonds	\$12,920,000
Tax Increment Financing (pay-go)	\$ 2,144,000
Tax Credits	\$ 1,920,000
Grants (unspecified)	\$ 1,300,000

Proposed Timeframe: The proposal assumes construction completion during the second quarter of 2005. It proposes acquisition and assembly of the Phase I site from May 2003 — July 2003, with demolition commencing by August 2003. (The proposal also refers to a second phase of the development, but does not contain sufficient specific information to be analyzed. This report addresses the first phase only.)

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Current Status of Project: The development team has made a presentation to the neighborhood organization and has responded to a Request for Proposals issued by the MCDA. The proposed project is within a redevelopment area. The parcels within the proposed project are eligible for potential acquisition. The developer has submitted an Application for Public Financial Assistance and the required \$1,000 application fee. The blight and financial analyses supporting establishment of a Tax Increment Financing district will be initiated upon PAA approval. The Preliminary Agreement to Negotiate will specify the steps, obligations and responsibilities of the developer and the MCDA during the anticipated Project Analysis Authorization process leading to a possible Redevelopment Agreement. Because neither the developer nor the MCDA have equitable interest in property within the area covered by Phase 1 of the Proposal, staff are recommending using the Preliminary Agreement to Negotiate instead of awarding exclusive development rights prior to execution of a Redevelopment Agreement.

### Results of Preliminary Staff Analysis

Public Purpose: The proposed project is generally consistent with the public purpose identified in the Hiawatha and Lake Redevelopment Plan since it would eliminate blighted property and improved the City's tax base.

#### Consistency with City and MCDA Goals:

The proposed development is generally consistent with the City and MCDA goals for the Hiawatha and Lake Redevelopment Area and with several goals and objectives in MCDA's ***Building a City That Works*** (as noted above).

#### Consistency with Applicable Plans and Development Objectives:

The proposed development is generally consistent with the City's and neighborhood goals contained in the adopted ***Midtown Revival Plan***. The Development Objectives adopted for redevelopment of the Hi-Lake Shopping Center (also within this redevelopment area) do not specifically extend to the blocks in question. However, the proposed development is compatible with those development objectives and, generally, with the objectives of the adopted Hiawatha and Lake Station Area Master Plan.

#### Sources and Uses Analysis:

The Sources and Uses need reworking and refinement to clearly segregate the residential and commercial sources and uses. Additional changes needed include, but are not limited to:

- Cost estimates covering potential relocation costs need to be included.
- Contingency factors for condemnation costs need to be added or increased.
- Specific sources for the \$1.3 million in anticipated grants need to be identified.

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Financial Feasibility and Appropriate Level of Public Participation:

Developer Qualifications: The proposal lists four projects, two for each identified partner in Cedar Lake Development Partners, LLC. Based on the experience listing and the assignment of project responsibility in the Proposal's listing of management capacity, Lupe Development is expected to be the lead entity for the residential elements and Welsh Companies will be the lead for the commercial elements. Lupe Development is identified as having primary responsibility for overall project economics.

- Stone Arch Apartments (Lupe Development) is a publicly subsidized 221-unit mixed rate apartment development currently under construction at 6<sup>th</sup> Avenue SE and Main Street SE, Minneapolis, MN. Total project cost is identified at \$33.5 million.
- Marcy Park Apartments (Lupe Development) is a 59-unit market rate (no public subsidy) apartment complex 10<sup>th</sup> Avenue SE and 8<sup>th</sup> Street SE, Minneapolis, MN. Total project cost is identified at \$9.6 million.
- Lilydale Development (Welsh Companies-Welsh Construction LLC) consists of an office building, restaurant and medical office building on Sibley Memorial Highway, Lilydale, MN. Total project cost is identified at \$4.5 million.
- Circuit City Plaza (Welsh Companies-Welsh Construction LLC) is a 136,150 square foot one story retail strip mall on 78<sup>th</sup> Street, Bloomington, MN. Total project cost is identified at \$6.5 million.

Need for Consultant:

To be determined.

Proposal Strengths and Weaknesses:

Strengths: The proposal is generally responsive to the mixed use, transit oriented development concepts identified as desirable in the RFP. According to the Corcoran Neighborhood Organization's evaluation, it is highly responsive to the design features identified in the Midtown Revival Plan as desired for this location. The development experience included for one of the major partners in the LLC reflects experience in urban residential development for both market rate and affordable housing. The proposal states that the development will also incorporate ecological design factors and features such as day lighting in residential common areas, use of energy star appliances in the common area public laundry, and strategies of Crime Prevention Through Design (CPTED).

Weaknesses: A growing body of experience reflects the many challenges to be met in achieving a successful mixed-use urban development. The proposal does not specifically identify developer experience with the design, construction, and successful leasing of commercial space in an urban mixed-use development. Furthermore, the project's financial assumptions, including the sources and uses and

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the 20-year proforma provided in the proposal, reflect an unacceptable and unhealthy reliance by the housing element on successful commercial leasing to make the project potentially financially viable. These shortcomings, in conjunction with what appears to be optimistic site assembly costs and the current lack of detailed design and commercial market analyses, warrant additional rigorous evaluation (as part of the Project Analysis for which Authorization is being sought), further interaction with the neighborhood organization, and, perhaps, a preliminary site plan review, prior to any decision regarding the viability of authorizing a redevelopment contract.

The developer's desired timeline and willingness to assume public agency responsibility to expedite the development process appears to be unduly optimistic. The proposal states "The developer proposes to prepare a proposed public purpose finding by private counsel, which can be reviewed / approved by the MCDA, and hopefully adopted by the Board... The developer will ask the MCDA to delegate the blight test fact finding authority under a service standards agreement to be proposed by the developer and approved by the agency. The cost of the public purpose finding and blight analysis will be borne by the developer..." Based on past experience, either or both the public purpose finding and the blight analysis results may be subject to litigation. Consequently, an appropriate course of action will be to conduct those activities by or under the direct supervision of Agency staff.

Project Analysis Fee

Based on the initial staff review of the information in hand, a Project Analysis Fee of \$12,000 is recommended to cover the costs of staff time needed to complete an economic feasibility and risk analysis.

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## Corcoran Neighborhood Organization

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John Harrington  
MCDA  
Crown Roller Mill #200  
105 5<sup>th</sup> Ave. S.  
Minneapolis, MN 55401-2534

Dear Mr. Harrington,

On behalf of the Corcoran neighborhood, we would like to thank you for your hard work and perseverance throughout the RFP process for Cedar and Lake. We look forward to working with the MCDA on this project as well as others in the future. The Corcoran Neighborhood Organization (CNO) is pleased with the process thus far. The MCDA has demonstrated a commitment to the Corcoran Midtown Revival Plan and a willingness to work with the neighborhood. Input and communication with our residents and business owners is very important to CNO and you have aided us in this process.

After much discussion and evaluation, CNO is happy to report the Land Use & Transportation committee unanimously approved the attached motion supporting Cedar Lake Development Partners, LLC the on April 21, 2003.

We would like to ask the MCDA and the City Council to review this motion and respect the wishes set forth by the people who live and work in this neighborhood. Please feel free to contact us if you have any further questions. We look forward to the changes that are to come.

Sincerely,

William Weber  
Chair  
CNO Land Use & Transportation Committee

Amy Brock  
Executive Director  
Corcoran Neighborhood Organization

**Resolution offered at the Corcoran Land Use and Transportation Committee**

The Corcoran Land Use and Transportation Committee has reviewed the development proposal by Cedar Lake Development Partners, LLC (CLDP) and finds the proposal in keeping with the spirit and intent of the Corcoran Neighborhood Organization (CNO) master plan outlined in the Midtown Revival Plan (MRP). Therefore, the Corcoran Land-Use Committee, on behalf of the CNO, recommends the Minneapolis Community Development Agency (MCDA) accept the proposal and grant CLDP exclusive development rights for the area covered by Phase I of the proposal for a period of time mutually agreeable to both parties (MCDA and CLDP) with the following understanding:

1. Further development and articulation of the project should continue to be informed by and consistent with the CNO Midtown Revival Plan (MRP).
2. In accordance with the CNO-MRP, design development should be informed by a public process involving this committee and when appropriate the general membership of the CNO.
3. The neighborhood rejects Phase II of the proposals townhouse development along Longfellow Avenue between Lake and 31<sup>st</sup> Streets in totality. This portion of the proposal is not part of the Midtown Revival Plan and therefore would require approval by the general membership of CNO.

In addition the Committee identifies the following opportunities and areas of concern for exploration and consideration:

In the spirit of building a sustainable community, housing ownership opportunities should be considered and if possible included in the mix of the proposed residential development.

In the spirit of building sustainable buildings and infrastructure appropriate to the character of Lake Street continued emphasis on traditional and durable materials and construction practices, such as brick and stone should be carried forward.

Exploration of parking options and consideration of development impacts on street and alley traffic should continue to maximize opportunities and minimize negative impacts on current and future residents.

As the first in a series of transit oriented redevelopment in this district, great care must be given to set a quality precedent, which can serve not only as an example for future development, but as a corner stone for that development.

Finally, the committee expresses its excitement and enthusiasm for this project and its appreciation to Cedar Lake Development Partners, LLC for its hard work and demonstrating respect for the Midtown plan and investing in the future of Corcoran and the Midtown area.